Homestead
Advisers | Funds

Our Perspectives:
Helping the Young People in Your Life

Helping young people develop an understanding of financial concepts — budgeting, investing and managing debt — can help them make smart choices that put them on a path to building wealth and creating a good quality of life for themselves.

Q. How important is it to talk to children and grandchildren about money?

Failing to teach kids about money can leave them woefully underprepared for the many financial decisions they'll face as soon as they become independent adults.

Even if we don't directly discuss money with children, they'll still pick up on the symbolic importance we assign to it and the emotions attached. They can carry those emotional associations into adulthood instead of thinking about money rationally. We believe a good approach is to have open, age-appropriate conversations that help kids view finances logically.

Q. What financial topics should I discuss with my children and grandchildren?

We seem most comfortable talking to children about saving, spending and earning money. But it's also important to give them good information about when and how to take on debt, and what goes into maintaining a good credit record, especially since such a high proportion will use student loans.

It's also crucial to make sure young adults understand the basics of investing. A recent survey of millennial investors showed that the majority of respondents had the benefit of their parents teaching them about saving and money management at a young age, but females received less exposure to investing behaviors.[1]

Q. What are some ways to start those conversations?

Talk about the news. Keep an eye out for news articles or stories about things such as student debt, credit mistakes or the rising cost of education. Share with kids and grandkids by bringing it up at the dinner table or emailing them a copy.

Ask about plans. As kids start to approach adulthood, ask if they understand the options to fund their living costs and bigger goals and see if they have any questions. You may not know the answer offhand, but you can offer to figure it out together.

Young adults — anyone over the age of majority in their state of residence — can open and begin to fund accounts even with small amounts. Homestead Funds has very low investment minimums — $500 for a regular taxable account and $200 for an IRA or ESA. We waive our minimums entirely if you fund your account with regular investments made directly from your paycheck or bank account.

Gift a book. A well-written book on the basics of smart money management can arm kids with good information whenever they need it.

Q. What are some ways I can contribute to my children or grandchildren's education costs?

There are account options available that provide tax benefits for education savings:

An **Education Savings Account (ESA), also known as a "Coverdell" account,** is one great option. Savings in an ESA can be used for a wide range of eligible education expenses, from kindergarten through college. Investments grow tax-free, although distributions are taxable if not used for eligible expenses. Anyone can contribute, but there is an annual contribution limit, and contributions are not deductible.

A **Uniform Gift/Transfers to Minors Account (UGMA/UTMA)** is another tax-advantaged option. This kind of account does not have annual contribution limits, although contributors are limited to annual federal gift limits per year

[1] PNC, "Do We Talk to Sons & Daughters Differently About Money?"

INVESTING IN YOURSELF

57% of bachelor's degree recipients will have an outstanding student loan.

In 2023, among people between the ages of 18 and 29, **57%** of bachelor's degree recipients will have an outstanding student loan.[1] Not all students stand to benefit from this investment.

The federal student loan debt balance in the U.S. has almost tripled in the past 15 years. The average student loan debt borrowed for a four-year bachelor's degree was $30,500 in 2019-2020, according to the National Center for Education Statistics.

College graduates typically earn more than those without a degree, so borrowing may make sense. Student loan debt is an important financial decision that requires thoughtful consideration. Borrowing a large sum and entering a low-paying career will either not pay off financially or take a long time to pay off. However, in the end it's a personal choice, and it's important compare the costs with the expected benefits.

MANAGING THE PAYMENTS

The typical borrower between ages 20 and 30 pays **$503** A MONTH

The typical borrower pays over **$500 a month** toward student debt. Meanwhile, the average total student debt of graduates in 2023 was a little over $37,000.[2]

The standard repayment plan for federal student loans puts borrowers on a 10-year track to pay off their debts, although it might take some longer. It takes an average of 20 years to pay student loans, based on an average starting salary of $60,000.[2] Making payments larger than the minimum amount will get students out of debt sooner and decrease the amount of interest they are paying.

MULTIPLE DEMANDS ON DOLLARS

33% of millennials moved home after college.

According to a 2023 Pew Research study, about **33%** of millennials moved home after college to save money.[3]

Young people with debt may find it challenging to manage multiple payments — such as rent or a car payment — and may need to make different choices or defer large purchases.

before triggering the federal gift tax. Investment earnings are taxed but not at the same rate as a regular taxable account, so there are benefits.

Family members who have the means can also pay tuition bills directly without triggering the federal gift tax rules, and under specific rules, parents can withdraw from IRA accounts to pay for some eligible education costs.

Homestead Funds does not offer tax advice. Please consult the appropriate professional regarding your individual circumstances.

Investing involves risk, including the possible loss of principal. ***Past performance does not guarantee future results.*** An investment in a mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Investors should carefully consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. To obtain a prospectus, call 800.258.3030 or visit homesteadadvisers.com.

Homestead Advisers Corp., Homestead Funds' investment advisor and/or administrator, is an SEC-registered investment advisor. Homestead Funds are distributed by Homestead Financial Services Corp. Homestead Advisers Corp. and Homestead Financial Services Corp. are indirect, wholly owned subsidiaries of the National Rural Electric Cooperative Association (NRECA). Homestead Financial Services Corp., Distributor. 12/24

[1] Best Colleges, "Average Student Loan Debt: 2024 Statistics"
[2] Education Data Initiative, "Average Student Loan Payment"
[3] Earnest, "Moving Back in With Parents After Graduation? You're Not Alone"